



Building a Culture of Compliance Pt.2



The Trinidad and Tobago Securities and Exchange Commission (TTSEC) is empowered under Section 89 of the Securities Act Chapter 83:02 (SA) to conduct compliance reviews while Section 7(1)(l) enables the TTSEC to “*monitor the risk exposure of registrants and self-regulatory organisations and take measures to protect the interest of investors, clients, members and the securities industry*”. Registrants (i.e. registered broker dealer, investment adviser, underwriter or other person registered under section 51(1) of the SA) engaging in more complex or riskier business activities must be able to demonstrate that their risk management capabilities match their risk appetite, as well as the scale and complexity of their operations.

All registrants are encouraged to develop and implement risk management practices that are commensurate with their business activities and overall risk profile. In accordance with By-law

64(1)(b) of the Securities (General) By-laws, the TTSEC has adopted a process for reviewing registrants' compliance with securities and other legislation (including the Proceeds of Crime Act and other written laws relating to the prevention of money laundering proliferation financing that are administered by TTSEC), for assessing the risk profiles of registrants, by:

- identifying its significant activities;
- assessing key risks inherent in each significant activity;
- assessing the quality of its risk management; and
- performing a financial analysis.

The above assessment determines the safety and soundness of the organisation (the person registered with the TTSEC), and at the end of this process, a Composite Risk Assessment (CRA) rating is assigned. This rating includes consideration of the above identified areas, as well as adequacy of the organisation's risk controls and its capital, earnings, liquidity, the direction (whether the organisation's operations are becoming more or less risky) and stability of its risk profile.

It is an overall assessment, considering the individual and collective residual risks from all significant activities, of the organisation's susceptibility to adverse events that might impact its earnings, capital or clients' interests in the foreseeable future.

As part of its supervisory process, the TTSEC may undertake either *thematic reviews*, where staff examines key risks that have been identified, then carry out further work into the particular area of concern, or *limited scope reviews*, which are based upon a supervisory framework to determine selection and priority of registrants. Throughout the supervisory process, a registrant's risk profile can be refreshed based upon further assessment of the impact of any material changes taking place at the organisation, thus providing dynamic monitoring and updating of an institution's risk profile.

For organisations that have been subjected to the TTSEC's limited scope reviews, a summary rating is provided at the end of an inspection report and an explanation of each rating is provided below:

1 (Low Risk)

A strong, well-managed institution. The combination of its Overall Residual Risk and its capital supported by earnings, and its liquidity, makes the institution resilient to most adverse business and economic conditions without materially affecting its risk profile. Its performance has been consistently good, with most key indicators in excess of industry norms, allowing it ready access to additional capital. Any supervisory concerns have a minor effect on its risk profile and can be addressed in a routine manner.

2 (Medium Low Risk)

A generally sound financial institution that is being managed satisfactorily. The combination of its Overall Residual Risk and its capital supported by earnings, and its liquidity make the institution resilient to most adverse business and economic conditions without materially affecting its risk profile. Its performance has been satisfactory, with most key indicators in excess of industry norms, allowing it ready access to additional capital. Any supervisory concerns have a minor effect on its risk profile and can be addressed in a short time frame.

3 (Moderate)

A generally well-managed institution. The combination of its Overall Residual Risk and its capital supported by earnings, and its liquidity makes the institution resilient to normal adverse business and economic conditions without materially affecting its risk profile. The institution's performance is satisfactory, with key indicators generally comparable to industry norms, allowing it reasonable access to additional capital. Supervisory concerns are within the institution's ability to address.

4 (Medium High Risk)

The institution has issues that indicate an early warning or that could lead to a risk to its financial viability. One or more of the following conditions are present. The combination of its Overall Residual Risk and its capital supported by earnings, and its liquidity make the institution

vulnerable to adverse business and economic conditions. Its performance is unsatisfactory or deteriorating, with some key indicators at or marginally below industry norms, impairing its ability to raise additional capital. The institution has issues in its risk management that, although not serious enough to present an immediate threat to financial viability or solvency, could deteriorate into serious problems if not addressed promptly.

5 (High Risk)

The institution has serious safety and soundness concerns. One or more of the following conditions are present. The combination of its Overall Residual Risk and its capital supported by earnings, and its liquidity is such that the institution is vulnerable to most adverse business and economic conditions, posing a serious threat to its financial viability or solvency unless effective corrective action is implemented promptly. Its performance is poor, with most key indicators below industry norms, seriously impairing its ability to access additional capital.

TTSEC is enhancing its off-site supervision capabilities to enable continuous monitoring of different types and developments of any risks that may require action consistent with its mandate to monitor the risk exposure of its registrants and take such measures to protect the securities industry. The above outlines some of the methods that the TTSEC uses, in accordance with its powers under the SA, to assess, measure and evaluate risk exposure in the securities market.

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Published Article – Business Express Newspaper
July 21st, 2021

